



ATTORNEYS AND COUNSELORS AT LAW

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*Emmett E. Lyne*  
*Direct Dial (617) 556-3885*  
*EMail: ELyne@RichMaylaw.com*

October 28, 2005

By Hand

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-69

Dear Secretary Cottrell:

We respectfully file these comments on behalf of Bay State Gas Company ("Bay State" or the "Company") in response to the comments of the Division of Energy Resources ("DOER") filed in this docket yesterday, October 27, 2005. For the reasons set forth below, the Company respectfully requests that the DOER reconsider its opposition to the Company's proposed Special 2005/2006 Heating Season Weatherization Rebate Program ("Program"). The Company respectfully submits that DOER's two core concerns are misfounded and accordingly, as set forth below, seeks to be sure that the proposal for the Program is clear. First, the Program would not "siphon away" funds from existing programs as DOER fears. Second, the Program will result in savings and utilizes measures already approved for other Programs.

First, implementation of the Program would not "siphon off" energy efficiency funds from already proven cost-effective programs as feared by DOER. As noted in the Company's October 6 filing, and amplified in response to the Department's Information Request DTE 1-3, which is attached hereto for convenience of reference as Attachment 1, the Company is seeking approval of the Program pursuant to **Section II.G** of the Settlement Agreement in Bay State Gas Company, D.T.E. 04-39 (2004) ("D.T.E. 04-39 Settlement"). In contrast to Section II.F of the Settlement, which addresses reallocations of budgets, Section II.G of the Settlement addresses expenditures of additional funds. As noted in the Company's October 6, 2005 filing, the Company plans to "continue to offer all of the energy efficiency efforts described in the D.T.E.

**RICH MAY, A PROFESSIONAL CORPORATION**

176 Federal Street, Boston, MA 02110-2223

617.556.3800 FAX 617.556.3889

www.richmaylaw.com

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04-39 Settlement” (October 6 filing at page 4).<sup>1</sup> The Company is not proposing to reallocate funds from existing cost-effective programs, but rather seeks to add the Program to its existing program mix for one, unique heating season. Accordingly, the DOER’s concern with respect to the potential for “siphoning off” funds from existing programs has been addressed. Further, and as stated in the response to IR-DTE-3, the Company does note that given the under-expenditure of funds (approximately \$669,000) in the 2004/2005 D.T.E. 04-39 Settlement program year, the expenditure of additional funds (approximately \$700,000) in the 2005/2006 D.T.E. 04-39 Settlement program year makes particular sense, i.e. on a two year, overall basis, the Company expenditures should match up very well with the D.T.E. 04-39 budgets.

Second, with respect to the DOER’s concerns that savings claims are not substantiated, the Company would respectfully refer the DOER to its response to Information Request DTE 1-1, attached hereto (without bulk exhibits) as Attachment 2 for the DOER’s convenience of reference. As noted in the October 6 filing and in such Information Request response, each of the weatherization measures eligible for the Program is currently being offered in either the D.T.E. 04-39 Settlement programs or in the Residential Conservation Service (“RCS”) Program. Accordingly, with respect to each measure, there has already been a determination that the savings/benefits of the measure justify its installation in customer premises. What is different about the Program is that it provides a new, expedited delivery mechanism for these measures that is specifically tailored to the intense pressures of the upcoming 2005/2006 heating system. If customers are forced to wait for service in existing programs, whether energy efficiency or RCS, they likely will not be able to have measures installed before or during the upcoming 2005/2006 heating season. The Program addresses this concern in a prudent and balanced manner, with Bay State expenditures capped at \$25.00 per customer. It allows customers the ability to address potentially glaring problems – such as broken windows, serious drafts, leaky faucets – to achieve immediate results in time for the upcoming heating season. Bay State acknowledges the possibility that, as DOER points out, some measures may not be installed properly or installed in a timely fashion. Nonetheless, the benefits of the Program outweigh this concern. In addition to energy savings, these benefits include ease of administration (the Program will be entirely implemented with existing staff), virtually zero outside labor costs thereby further increasing cost-effectiveness of the Program, and speed (measures can be installed immediately). The Company emphasizes that it only proposes to offer the Program through April 2006 in response to the unique pressures posed by the upcoming heating season.

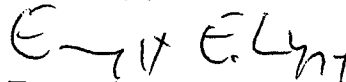
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<sup>1</sup> The Company also specifically stated that it was not re-allocating any funds away from low-income programs in its October 6 filing (p.4) given the express provisions regarding low-income programs on page 9 of the D.T.E. 04-39 Settlement and based on pre-filing discussions with LEAN. This statement is not meant to imply that funds will somehow be “siphoned off” of other programs. The Company apologizes for any confusion on this point and hopes this clarification assists in the DOER’s continuing review of the Program.

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In conclusion, we hope that the clarifications provided above address the DOER's concerns and the Company respectfully requests that DOER reconsider its comments. The Company seeks to offer the Program in both its New Hampshire and Maine service territories this winter and is awaiting regulatory approvals in such states. (In fact, New Hampshire approved the Program today and the Company received notice of this approval at approximately 1:00 p.m. See Attachment 3.) The Program provides immediate benefits for Massachusetts customers, helps the environment and is good for the local economy and participating retailers. In short, the Program makes common sense and the Company respectfully requests the Department's approval. Should you have any further questions, please do not hesitate to contact the undersigned.

Very truly yours,



Emmett E. Lyne

cc: Shaela McNulty Collins, Esq., DTE  
Steven Venezia, Esq., DOER  
Joseph Rogers, Esq., Office of the Attorney General  
Jerrold Oppenheim, Esq., Low-Income Energy Affordability Network  
Nancy Brockman, Esq., Pay America, Inc.  
Stephen Bryant, Bay State Gas Company  
Patricia French, Esq., NiSource Corporate Services  
Derek Buchler, Bay State Gas Company  
Marjorie Izzo, Bay State Gas Company  
Kara Gray, Bay State Gas Company

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Attachment 1

DTE IR 1-3

DTE 1-3      Refer to Bay State's petition filed on October 6, 2005 at 4. Please explain how Bay State's proposal to fund its rebate program by reallocating funds from its budget for residential energy efficiency programs approved by the Department on September 13, 2004 in Bay State Gas Company, D.T.E. 04-39 (2004) meets the requirements of Section II.F of that Settlement. What percentage of the residential energy efficiency programs does the rebate program constitute?

Response 1-3 (Witness Responsible: Derek Buchler)

As an initial matter, as noted in the introductory paragraph (page 1) of its October 6, 2005 filing seeking approval of the Special 2005/2006 Heating System Weatherization Rebate Program ("Program"), the Company is seeking approval pursuant to **Section II.G** of the D.T.E. 04-39 Settlement Agreement. Section II.G of the D.T.E. 04-39 Settlement provides in particular:

During the Pre-Approval Period, the Company may expend, and seek recovery of, funds for its energy efficiency programs, including market transformation/market-driven energy efficiency initiatives, in addition to or in excess of the pre-approval amounts set forth in Paragraphs II.A., II.B. and II.C. above, if such additional expenditures are cost-effective or if, in its discretion, the Company determines that such additional expenditures are in the best interests of the Company's energy efficiency programs and the Company's customers based upon then current circumstances; provided, however, that, while the other Settling Parties shall consider in good faith any such additional expenditures, the other Settling Parties shall not be bound to support the recovery of such additional expenditures unless in their respective discretions, the Company has shown the cost-effectiveness or benefits of such additional expenditures.

The Company is not seeking to utilize the provisions of Section II.F of the Settlement which allow the Company to make budgetary reallocations without prior Department approval provided that the reallocation is 25% or less than overall residential energy efficiency budget. By way of example, the overall residential budget (low-income and non-income programs combined) for the 2005/2006 Program Year for Bay State is \$2,568,812. Accordingly, subject to certain restrictions, Bay State would have the ability to reallocate funds of \$642,203 without the need for prior Department approval under Section II.F of the D.T.E. 04-39 Settlement. Because the Company expects that expenditures for the Program will be approximately \$700,000 (and could be less or more depending on actual in-the-field uptake), which is more than 25% of the residential program budget, the Company's request then rolls over to Section II.G

of the D.T.E. 04-39 Settlement and the procedures set forth therein. For the reasons set forth in its October 6, 2005 filing, the Company believes that its proposal satisfies the requirements of Section II.G which expressly provide that the Company may "expend and seek recovery of funds. . . in excess of the pre-approved amounts. . . if such additional expenditures are cost-effective or if in its discretion the Company determines that such additional expenditures are in the best interests of the Company's energy efficiency programs and Company's customers based upon then current circumstances." As noted above, the Company believes that the Program is not only cost-effective, but also in the best interests of its customers especially in light of the unique current circumstances in which very high commodity costs are forecast for the 2005/2006 heating season.

Relatedly, as stated in its October 6, 2005 filing, the Company notes that in the 2004/2005 Program Year, it spent approximately \$1.8 million out of an approximately \$2.5 million budget with an under expenditure of approximately \$669,000. The D.T.E. 04-39 Settlement provides for a five-year pre-approval period, and it is anticipated that actual expenditures in any given year will vary in some amount from the actual budgeted amounts based on actual in-the-field experience. As implied by the Department's question, another useful way of examining the Company's request for approval is to view it as a re-allocation of unexpended funds from the 2004/2005 program year. If the Department were to approve the Program and the Company otherwise achieved its budgetary targets for the 2005/2006 Program Year, on a two-year basis, the Company would be almost exactly at the two-year budget levels approved in the D.T.E. 04-39 Settlement. (That is, the \$669,000 2004/2005 under expenditure would be counter-balanced by the additional \$700,000 2005/2006 expenditure for the Program.) This longer term consistency with the D.T.E. 04-39 Settlement budget is another factor supporting approval of the Program. The Company emphasizes that, except for certain low income expenditures, for gas LDCs, the Department has historically **not** required that unexpended program funds from one program year be expended in the subsequent program year, nor has the Department required that if a company over-expends in a given year, the subsequent year's budget be adjusted downward. Rather, the Department has reviewed expenditure variances in annual CC decimal reviews.

Further, answering the Department's question, the Company notes that utilizing the approved 2005/2006 budget of \$2,568,812, the \$700,000 Program budget would constitute approximately 27% of the 2005/2006 budget. Looking at matters from a two year budgetary perspective (for illustrative purposes only) and re-allocating the \$669,000 under-expenditure from the previous program year (2004/2005) into the current program year budget, a 2005/2006 program year

budget of \$3,237,812 would be indicated and the \$700,000 for the Program would constitute 21% of the two-year budget.

In sum, because the possible expenditures for the Program exceed 25% of the pre-approved 2005/2006 budget, the Company is seeking approval of the Program pursuant to Section II.G as opposed to Section II.F of the D.T.E. 04-39 Settlement. The Company, as noted above and in its October 6, 2005 filing, is very close to the threshold established in Section II.F, which would allow it to proceed without Department approval, but conservatism indicates that the appropriate path is utilization of Section II.G of the Settlement.

Attachment 2

DTE IR 1-1



DTE 1-1 Refer to Bay State's petition filed on October 6, 2005 at 2. Please:

- (a) Provide complete and detailed documentation of the cost-effectiveness for each weatherization measure offered as part of Bay State's proposed rebate program.
- (b) Identify which weatherization measures offered as part of Bay State's proposed rebate program were screened for cost-effectiveness in connection with Bay State Gas Company, D.T.E. 04-39, and explain the screening process.
- (c) Identify the weatherization measures offered as part of Bay State's proposed rebate program that are offered through Bay State's "DTE and DOER-approved RCS program." Explain the RCS program and the connection, if any, with cost-effectiveness.

RESPONSE 1-1(a) (Witness Responsible: Derek Buchler)

Introductory Comments

The measures and materials offered in the Company's proposed Special 2005/2006 Heating Season Weatherization Rebate Program ("Program") are weatherstripping, caulking, foam insulation spray, door sweeps and kits, faucet aerators, low-flow showerheads, poly wrap, pipe insulation, rigid board insulation, garage door seals. All of these measures are currently offered in a variety of other Bay State Gas energy efficiency programs. In that sense, the materials and measures are neither new nor unique and are already available to customers. Given the onset of the 2005/2006 heating season and anticipated high gas commodity costs, the proposal for the Program intends to allow customers to utilize those measures and materials under a single streamlined new initiative, without the need to wait to participate in the more comprehensive Residential Conservation Service ("RCS") Program or pre-approved energy efficiency programs offered pursuant to the D.T.E. 04-39 Settlement.

Accordingly, and as noted in the Company's October 6 filing, the measures offered in the proposal draw on measures currently offered and approved in either the Company's RCS program, annually approved by both the DOER and DTE<sup>2</sup>, or in the Company's most recently approved five year energy efficiency plan approved in DTE 04-39.

Overarchingly, as noted in page 3 of the Company's October 6 filing, the Company expects to achieve at least 250,000 therms of savings per year from the Program for a budget of \$700,000. This equates to a one-time cost per annual therm of savings of \$2.80. All Program measures,

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<sup>2</sup> Bay State's CY 2005 RCS program was approved in docket D.T.E. 04-96 (2004).

except for polywrap, are expected to have measure lives of at least seven years. For simplicity and illustrative purposes only, utilizing anticipated commodity costs of approximately \$1.72 per therm projected for this winter, the program would pay for itself well before the end of year two, without factoring in any non-resource benefits, discounting, etc., which only make the Program more cost-effective. Also, as described in response to IR-1-2, the estimated savings of 250,000 therms per year are very conservative. As further detailed below, and based on the foregoing, the Program is securely cost-effective.

### RCS Measures

Specifically, the following measures/materials are offered as Instant Savings Measures, (previously known as Demonstration Materials) under the Company's RCS program overseen by the DOER: weatherstripping, door sweeps and kits, faucet aerators, low-flow showerheads, and pipe insulation. (Additional quantities of these measures may also be offered/installed under the Company's pre-approved D.T.E. 04-39 five-year energy efficiency plan.) These materials are typically installed in a home during an initial home energy assessment in order to demonstrate to customers how they may install additional materials on their own. As detailed below, RCS is a statutorily mandated program and cost-effectiveness is not a prerequisite to the program. Nonetheless, pursuant to the DOER's request, in December 2004, the Company did prepare a cost-effectiveness analysis of the RCS program (at the program level). This analysis and the related assumptions is attached as Attachment 1-1-(a)-(1) and indicates a BCR of 2.13.

### D.T.E. 04-39 Settlement Approved Measures

#### (i) Rigid Board Measure.

The second type of measure offered under the Company's proposed special rebate Program is drawn from the Company's pre-approved five-year energy efficiency plan and offered through its custom weatherization program and/or low-income program, as approved in the D.T.E. 04-39 Settlement. These specific measures are rigid board insulation and air sealing. The rigid board measure was included in the cost effectiveness screening of the residential Custom Weatherization program in DTE 04-39 (and DTE 01-27). Attachment 1-1-(a)-2 contains the more detailed cost-effectiveness screening materials, including methodologies, included in the Company's D.T.E. 04-39 pre-approval filing dated March 30, 2004, which was incorporated into the D.T.E. 04-39 Settlement. Screening for this program was done at the program (not measure) level in accordance with the Total Resource Cost Methodology and the Department's February 2000 D.T.E. 98-100 cost-effectiveness guidelines.

#### (ii) Further Information on Air Sealing Measures.

In practice, air sealing is not one stand alone measure, but rather a group of materials and

activities used in offering the measure for home sealing called Air Sealing which was approved as a component of the Company's low-income program in D.T.E. 04-39 (see Exhibit One-A Attachment A of the D.T.E. 04-39 Settlement, including with the Company's October 6, 2005 filings in this matter). Materials often used in air sealing activities include weatherstripping, caulking, foam spray insulation, poly wrap and garage door seals which are proposed to be offered in the Program. The Company's low-income program was found to be cost-effective in screening included with the Company's March 30, 2004 pre-approval filing, incorporated into the D.T.E. 04-39 Settlement. See Attachment 1-1-(a)-2. Air sealing is also offered by a number of gas LDCs for non-low income customers and was approved as part of Berkshire's cost-effective residential energy efficiency program in The Berkshire Gas Company D.T.E. 04-38 (2004). (Under the D.T.E. 04-39 Settlement, the Company is expressly allowed to "piggyback" on these savings used by Berkshire (and other LDCs).) More recently, the federal ENERGY STAR program announced, "*Sealing your home's envelope is one of the most cost-effective ways to lower your home's energy bills and improve your comfort.*" (see Attachment 1-1-(a)-3, except from [www.energystar.gov/homesealing](http://www.energystar.gov/homesealing) for additional details).

In sum, the Company has not screened all individual measures and/or materials offered in the Proposal for cost effectiveness at the measure level. Instead, it only proposes offering measures either already offered in its approved RCS program or offered as components of programs found to be cost-effective in the D.T.E. 04-39 Settlement. Going further, as indicated above, even using a simplified analysis of the Program based on the high forecast commodity costs for this winter and the low per therm savings cost of the Program, the Program is securely cost-effective.

Response 1-1(b):

As noted above, faucet aerators, low-flow showerheads, pipe insulation, rigid board insulation and air sealing (weatherstripping, caulking, foam spray insulation, poly wrap and garage door seals) are offered to customers in the Company's pre-approved five year energy efficiency plan approved in DTE 04-39. See response to 1-1(a) for further information on this process.

Response 1-1(c):

See response to 1-1(a) for list of the measures offered pursuant to the Company's RCS Program. The RCS Program is a statutorily mandated program originally arising out of the energy crisis in the late 1970's. The RCS Program is specifically mandated by G.L. c. 164 App. Sections 2.1 et seq. The Department's regulations governing the RCS Program are set forth at 220 CMR Section 7.00 et seq. and the DOER's regulations with respect to the RCS Program are set forth at 225 CMR 4.00 et seq. Traditionally, the DOER approves program goals and measures and the Department reviews and approves RCS program budget and surcharges. The Company's 2005 RCS Program was approved in Docket D.T.E. 04-96 and as part of this program, each of the above referenced measures is offered. Cost-effectiveness is not required under the statute or

these regulations. Nonetheless, as noted above, in December 2004, the Company conducted an informal cost-effectiveness review of the RCS Program and it indicated, based on the assumptions set forth therein, a BCR of 2.13. Further answering, the Company notes that it utilizes the RCS Program as one of its points of intake for its D.T.E. 04-39 energy efficiency conservation programs. As noted above, each of these programs has been screened for cost-effectiveness in accordance with the D.T.E. 98-100 Total Resource Cost Cost-Effectiveness Screening Guidelines.

## Attachment 3

### New Hampshire Approval

**DG 02-106**

**NORTHERN UTILITIES, INC.**

**Special 2005/2006 Energy Efficiency Weatherization Rebate Program**

**Order Approving Special 2005/2006 Energy Efficiency Weatherization Rebate Program for  
Program Year Three**

**ORDER NO. 24,534**

**October 28, 2005**

On October 12, 2005, Northern Utilities, Inc. (Northern) filed with the Commission a proposal to add a new energy efficiency program to the array of programs already approved by the Commission in *Energy Efficiency Programs for Gas Utilities*, 87 NH PUC 892 (2002). This new program, available to residential heating customers, offers a special rebate of \$25 per customer for certain qualifying measures such as weather stripping, caulking, foam insulation spray, pipe insulation, garage door seals and other qualifying measures. The rebate is in addition to the rebates currently offered by other energy efficiency programs and applies to measures purchased between October 1, 2005 and April 30, 2006. To qualify, customers must submit a rebate form, copies of their receipts and the original UPC codes to Northern.

Northern estimates that between 2,000 and 3,000 customers could be participating in the program and that customer savings from installation of the measures could be between 20,000 and 30,000 therms per year. Northern also estimates that the cost of the program is between \$56,000 and \$85,000, funding for which can be obtained from the unexpended funds currently existing in Northern's on-going energy efficiency programs.

Northern has reviewed this special rebate program with the other signatories to the Settlement Agreement in DG 02-106 and has obtained their support for this initiative.

Staff has reviewed Northern's estimated participation levels and program costs including administrative expense and program savings and finds them to be reasonable. Staff notes that the program is cost effective, delivering savings that exceed costs.

We have reviewed the proposed special 2005/2006 energy efficiency weatherization rebate program and we find that it is reasonable. We also find that Northern's implementation of this program for the upcoming winter heating season is appropriate. We note that Northern's marketing flyers reference an effective date of October 1, 2005; thus, to avoid any confusion on the part of customers, we will approve the program for implementation retroactive to October 1, 2005.

**Based upon the foregoing, it is hereby**

**ORDERED**, that Northern Utilities, Inc. is authorized to implement the special 2005/2006 energy efficiency weatherization rebate program with an effective date of October 1, 2005.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of October, 2005.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Michael D. Harrington  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary

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